OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERIM CONDENSED FINANCIAL INFORMATION

(UNAUDITED)

30 SEPTEMBER 2013

Contents

(In thousands of Russian Roubles)

	Notes	30 September 2013	31 December 2012
Assets			
Current assets			
Cash and cash equivalents	6	10,487,450	14,852,108
Trade and other receivables	7	6,405,898	4,215,026
Current income tax prepayments		189,520	-
Inventories	8	596,875	648,902
Total current assets		**17,679,743**	**19,716,036**
Non-current assets			
Property, plant and equipment	10	63,434,838	64,761,200
Long-term accounts receivables	9	253,592	238,914
Other non-current assets	11	7,359,279	7,093,944
Total non-current assets		**71,047,709**	**72,094,058**
Total assets		**88,727,452**	**91,810,094**
Liabilities and equity			
Current liabilities			
Trade and other payables	12	671,938	762,813
Other taxes payable	13	2,779,781	3,099,154
Current income tax payable		-	75,542
Short-term loans and current portion of long-term debt	14	3,086,359	6,979,946
Total current liabilities		**6,538,078**	**10,917,455**
Non-current liabilities			
Long-term loans	15	21,701,400	23,563,253
Provisions for liabilities and charges	16	2,710,374	2,547,298
Deferred income tax liabilities		7,243,207	6,637,857
Total non-current liabilities		**31,654,981**	**32,748,408**
Total liabilities		**38,193,059**	**43,665,863**
Equity			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	873,253	873,253
Retained earnings		24,522,095	22,131,933
Total equity		**50,534,393**	**48,144,231**
Total liabilities and equity		**88,727,452**	**91,810,094**

S.E. Tsygankov
General Director
1 November 2013

Y.V. Sukhanova
Deputy director on economics and finance
1 November 2013

OJSC SEVERNEFTEGAZPROM
INTERIM IFRS INFORMATION OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)
(In thousands of Russian Roubles)

	Notes	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Revenue	18	**24,903,489**	**24,247,743**
Cost of sales	19	(15,535,338)	(14,061,361)
Gross profit		**9,368,151**	**10,186,382**
General and administrative expenses	20	(621,455)	(621,452)
Research and development costs		(542,397)	(449,306)
Other operating income	21	150,320	93,120
Other operating expenses	22	(122,119)	(248,767)
Operating profit		**8,232,500**	**8,959,977**
Finance income	23	2,048,425	5,968,153
Finance costs	24	(3,501,566)	(5,684,588)
Profit before income tax		**6,779,359**	**9,243,542**
Income tax expense	13	(1,245,946)	(1,893,059)
Profit for the period		**5,533,413**	**7,350,483**
Other comprehensive income		-	-
Income tax expense/(benefit) related to other comprehensive income		-	-
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**5,533,413**	**7,350,483**

S.E. Tsygankov
General Director
1 November 2013

Y.V. Sukhanova
Deputy director on economics and finance
1 November 2013

OJSC SEVERNEFTEGAZPROM
INTERIM IFRS INFORMATION OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)
(In thousands of Russian Roubles)

	Notes	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Profit before income tax		**6,779,359**	**9,243,542**
Adjustments for:			
Finance income	23	(747,534)	(599,864)
Finance costs	24	979,918	1,471,766
Depreciation and impairment of PPE	19	1,938,735	1,999,941
Gain on disposal of PPE	21,22	-	161
Provision for revegetation	23	-	-
Net unrealised foreign exchange loss/(gain)	23, 24	1,220,757	(1,155,467)
Operating cash flows before changes in working capital		**10,171,235**	**10,960,079**
Decrease (increase) in inventories	8	52,027	(76,942)
Increase in trade and other receivables		(2,184,168)	(3,182,656)
Increase in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		157,287	1,088,553
Cash paid for exploration and evaluation service		(614,741)	(479,947)
Income taxes paid		(908,748)	(180,367)
Net cash from operating activities		**6,672,892**	**8,128,720**
Cash flows from investing activities			
Purchase of property, plant and equipment		(544,228)	(783,873)
Proceeds from sales of property, plant and equipment		570	128
Interest income received		729,247	561,369
Net cash used in investing activities		**185,589**	**(222,376)**
Cash flows from financing activities			
Repayment of borrowings		(7,366,342)	(7,691,224)
Interest paid		(754,623)	(1,171,379)
Dividends paid to the Company's shareholders		(3,143,251)	(1,710,979)
Net cash used in financing activities		**(11,264,216)**	**(10,573,582)**
Decrease in cash and cash equivalents		**(4,405,735)**	**(2,667,238)**
Effect of exchange rate changes on cash and cash equivalents		41,077	47,160
Cash and cash equivalents at the beginning of the period		**14,852,108**	**10,310,569**
Cash and cash equivalents at the end of the period	6	**10,487,450**	**7,690,491**

S.E. Tsygankov
General Director
1 November 2013

Y.V. Sukhanova
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1 November 2013

The accompanying notes are an integral part of this interim condensed financial information.

OJSC SEVERNEFTEGAZPROM
INTERIM IFRS INFORMATION OF CHANGE IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)
(In thousands of Russian Roubles)

	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2012	**533,330**	**40,000**	**25,099,045**	**873,253**	**13,534,068**	**39,546,366**
Profit for the period	-	-	-	-	7,350,483	**7,350,483**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	7,350,483	**7,350,483**
Dividends	-	-	-	-	(1,831,884)	**(1,831,884)**
Balance at 30 September 2012	**533,330**	**40,000**	**25,099,045**	**873,253**	**19,052,667**	**45,064,965**
Balance at 1 January 2013	**533,330**	**40,000**	**25,099,045**	**873,253**	**22,131,933**	**48,144,231**
Profit for the period	-	-	-	-	5,533,413	**5,533,413**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	5,533,413	**5,533,413**
Dividends	-	-	-	-	(3,143,251)	**(3,143,251)**
Balance at 30 September 2013	**533,330**	**40,000**	**25,099,045**	**873,253**	**24,522,095**	**50,534,393**

S.E. Tsygankov
General Director
1 November 2013

Y.V. Sukhanova
Deputy director on economics and finance
1 November 2013

1. ACTIVITIES

The core activities of Open Joint Stock Company Severneftegazprom ("the Company") are exploration and development of the Yuzhno-Russkoye oil and gas field, production and sales of gas.

The Company was established in 2001 as a result of reorganization of limited liability company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 30 September 2013 shareholders of the Company were represented by OJSC Gazprom which holds 50 percent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 percent of ordinary shares minus 3 ordinary shares plus 2 class A and 1 class C preference shares and E.ON E&P GmbH which holds 25 percent of ordinary shares minus 3 ordinary shares plus 3 class B preference shares. E.ON E&P GmbH received ownership of shares of the Company as a result of swap transaction with the Gazprom group in 2009.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

Registered address and place of business. 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT OF THE COMPANY

The Russian Federation displays certain characteristics of an emerging market. Tax, currency legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 25).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current business and economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 "Interim financial reporting" (IAS 34).This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards ("IFRS").

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied to all the periods presented.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"); it's functional and presentation currency is the Russian Rouble ("RR").

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 32.35 and 30.37 as at 30 September 2013 and 31 December 2012, respectively. The official Euro to RR exchange rates, as determined by the Central bank of the Russian Federation, were 43.65 and 40.23 as at 30 September 2013 and 31 December 2012, respectively.

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.
Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Property, plant and equipment include the cost of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount.

Oil and gas exploration assets

Oil and natural gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses. Costs directly associated with exploration wells are capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Capitalization is made within property, plant and equipment. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible assets. No depreciation is charged during the exploration and evaluation phase.

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.

Summary of useful lives and alternative basis for depreciation:

Buildings associated with production	Units of production
Buildings not associated with production	15- 31 years
Pipeline	Units of production
Machinery and equipment	Units of production /1-20 years
Wells	Units of production
Roads	Units of production
Other	1-20 years

(c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting period and are included in the financial information at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”. This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company’s uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are valued at the lower of the weighted average cost and net realisable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(g) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(h) Income taxes

Income taxes have been provided for in the financial information in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial information is authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(i) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(j) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.
Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(l) Financial assets

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables and cash and cash equivalents. These assets are carried at amortized costs.

(m) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(n) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The accounts receivable impairment provision is created on the base of the management assessment of collectability of customers' accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

(o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

(p) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves" (refer to 17).

(q) Pension liabilities

In the normal course of business the Company contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

During 2009 the Company has started implementation of the non-State pension program. All the employees of the Company have the right to receive pension benefits from the non-State pension fund by achieving the pension age. The contributions to the non-State pension plan, which is a defined contribution plan, are expensed when incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the Russian Federation State pension fund and non-State pension program.

(r) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.
Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(s) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(t) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

(u) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

(v) Equity

Share capital

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

(w) Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(x) New Accounting Developments

Adoption of new or Revised Standards and Interpretations

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2012 or later periods and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2013

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that deferred tax on investment property carried at fair value is recovered entirely through sale. The application of this amendment did not materially affect the Company's financial information.

IFRS 10 "Consolidated financial statements" ("IFRS 10"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The application of this standard is not expected to materially affect the Company's financial information.

IFRS 11 "Joint arrangements" ("IFRS 11"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, replaces IAS 31 "Interests in Joint Ventures" ("IAS 31") and SIC 13 "Jointly Controlled Entities − Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Company is currently considering that some of its investments in jointly controlled companies might be classified as investments in joint operations under IFRS 11. Thus effective 1 January 2013 the Group will cease application of the equity method of accounting with regard to those investments and will start recognizing the Group's share in assets, liabilities, revenues and costs of the joint operations. The application of IFRS 11 is not expected to materially affect the Company's financial position or total comprehensive income.

IFRS 12 "Disclosure of interest in other entities" ("IFRS 12"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The application of this standard is not expected to materially affect the Company's financial information.

IFRS 13 "Fair value measurement" ("IFRS 13"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The application of this standard is not expected to materially affect the Company's financial information.

Amended IAS 27 "Separate Financial Statements" ("IAS 27"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this amendment is not expected to materially affect the Company's financial information.

Amended IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The application of this standard is not expected to materially affect the Company's financial information.

Amended IAS 19 "Employee benefits" ("IAS 19"), issued in June 2011 and effective for periods beginning on or after 1 January 2013, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The application of this standard will significantly increase the statement of financial position liability of the Company due to the requirement for immediate recognition of actuarial gains and losses (remeasurements) in other comprehensive income; future volatility of the financial information liability and other comprehensive income of the Company may also increase.

Amendments to IAS 1 "Presentation of financial statements" ("IAS 1"), issued in June 2011 and effective for annual periods beginning on or after 1 July 2012, changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The application of this standard is not expected to materially affect the Company's financial information.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Company is currently assessing the impact of the amended standard on its financial information.

(b) Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Company.

IFRS 9 "Financial Instruments" ("IFRS 9"), issued in November 2009 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The application of this standard is not expected to materially affect the Company's financial information.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company is considering the implications of the amendment, the impact on the Company and the timing of its adoption by the Company.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial information and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see Note 25).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Classification of production licenses. Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial information.

Site restoration and environmental costs. Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss on an units of production basis. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

Reserves estimation. Unit-of-production depreciation charges are principally measured based on Company's estimates of proved reserves. Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related exploration drilling costs. Information about the carrying amounts of production assets and the amounts of depreciation charged to the profit or loss as well as sensitivity analysis for estimation of gas reserves is presented in Note 10.

(In thousands of Russian Roubles)

5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	**30 September 2013**	**31 December 2012**
Current assets		
Cash and cash equivalents	10,487,450	14,852,108
Receivables from related parties	6,244,061	4,031,927
Other short-term receivables	104,766	77,493
Non-current assets		
Long-term receivables from related parties	241,362	226,684
Long-term other receivables	12,230	12,230
Other non-current assets	7,359,279	7,093,944
	24,449,148	**26,294,386**

Liabilities at amortized cost	**30 September 2013**	**31 December 2012**
Current liabilities		
Short-term borrowings and current portion of long-term debt	3,086,359	6,979,946
Trade payables	364,464	259,487
Interest payable	69,106	90,354
Payables to related parties	21,786	39,588
Other payables and accruals	20,503	24,497
Long-term liabilities		
Long-term borrowings	21,690,957	23,563,253
	25,253,175	**30,957,125**

6. CASH AND CASH EQUIVALENTS

	30 September 2013	**31 December 2012**
Current accounts	9,112,670	13,664,918
Deposit accounts	1,374,780	1,187,190
	10,487,450	**14,852,108**

As at 30 September 2013 cash in the amount of RR 1,305,390 thousand was placed on deposit accounts in Vneshprombank, RR 69,390 thousand was placed on deposit accounts in Gazprombank.

As at 31 December 2012 cash in the amount of RR 1,152,821 thousand was placed on deposit accounts in Vneshprombank, EURO 628.38 thousand was placed on deposit accounts in ING bank NV, US dollar 299.29 thousand was placed on deposit accounts in ING bank NV.

As at 30 September 2013 deposit accounts include deposits with original maturities of three months or less.

As at 30 September 2013 the weighted average interest rate on the deposit accounts of the Company was 6.42 percent for RR (at 31 December 2012 - 6.50 percent for RR, 0.54 percent for Euro, 0.93 percent for US Dollar).

As at 31 December 2012 deposit accounts include deposits with original maturities of three months or less.

(In thousands of Russian Roubles)

The table below shows credit risk analysis of cash and cash equivalents and presents balances of major Company's counterparties at the reporting date.

				30 September 2013	31 December 2012
	Rating	**Rating agency**	**Credit limit for one bank**	**Balance**	**Balance**
Vneshprombank	B2	Moody's	Not set	1,305,398	1,152,821
Credit Agricole	A2	Moody's	Not set	9,111,820	13,664,152
ING bank N.V.	A2	Moody's	Not set	-	34,369
Gazprombank	Baa3	Moody's	Not set	70,131	647
Rosbank	Baa3	Moody's	Not set	101	119
				10,487,450	**14,852,108**

The table below shows analysis of restricted cash (Note 11):

				30 September 2013	31 December 2012
	Rating	**Rating agency**	**Credit limit for one bank**	**Balance**	**Balance**
ING bank N.V.	A2	Moody's	Not set	3,814,504	3,549,169
Credit Agricole	A2	Moody's	Not set	3,544,775	3,544,775
				7,359,279	**7,093,944**

7. TRADE AND OTHER RECEIVABLES

	30 September 2013	31 December 2012
Financial assets		
Receivables from related parties (see Note 26)	6,244,061	4,031,927
Other receivables	152,600	125,327
Impairment provision for other receivables	(47,834)	(47,834)
	6,348,827	**4,109,420**
Non-financial assets		
Advances to suppliers	23,522	87,646
Impairment for advances to supplies	(1,298)	(1,298)
VAT recoverable	34,074	17,401
Prepaid taxes, other than income tax	773	1,857
	57,071	**105,606**
	6,405,898	**4,215,026**

The ageing analysis of past due and impaired trade and other receivables are as follows:

Aging from the due date

	30 September 2013	31 December 2012
From 1 to 3 years overdue	(13,781)	(13,781)
More than 3 years overdue	(35,351)	(35,351)
	(49,132)	**(49,132)**

Movements of the provision for impairment of other accounts receivable and advances to supplies are as follows:

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Provision for impairment at 1 January	(49,132)	(50,660)
Provision for impairment reversed/(accrued)	-	481
Provision for impairment at 30 September 2013 and at 30 September 2012	**(49,132)**	**(50,179)**

All receivables that are past due are fully provided against as at 30 September 2013 and 31 December 2012.

(In thousands of Russian Roubles)

As the principal debtors of the Company are related parties, the Company believes that the default risk is low and, therefore, does not establish provision for impairment of these receivables. No receivables from related parties were past due or impaired as at 30 September 2013.

The fair value of accounts receivable as at 30 September 2013 and 31 December 2012 approximates their carrying value.

8. INVENTORIES

	30 September 2013	31 December 2012
Materials and supplies	852,501	921,285
Other materials	11,807	11,389
Impairment of materials	(267,433)	(283,772)
	596,875	**648,902**

9. LONG-TERM ACCOUNTS RECEIVABLE

	30 September 2013	31 December 2012
Financial assets		
Receivables from related parties (see Note 26)	241,362	226,684
Other receivables	12,230	12,230
	253,592	**238,914**

Long-term accounts receivable are initially recognized in the information of financial position at fair value. The difference between the fair value of the long-term accounts receivable and the amount of cash received was recorded in the profit or loss. As at 30 September 2013 receivables from related parties in the amount of RR 241,362 (31 December 2012 – RR 226,684) represent receivables from OJSC “Gazprom” in relation to compensation of losses caused by default in its contractual obligation to purchase a set volume of gas in 2009, to be paid in equal amounts over 5 years starting from December 2011.

The fair value of long-term accounts receivable as at 30 September 2013 and 31 December 2012 approximates their carrying value.

(In thousands of Russian Roubles)

10. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Assets under construction	Total
Cost at 1 January 2012	**9,647,847**	**9,718,783**	**30,448,598**	**9,420,181**	**13,684,925**	**95,657**	**2,434,451**	**75,450,442**
Addition	-	-	-	99,367	-	14,848	1,075,372	**1,189,587**
Change in component for decommissioning and site restoration obligation (Note 16)	(156,521)	(131,303)	(422,314)	(65,629)	-	-	-	**(775,767)**
Impairment of PPE	-	-	(22,887)	-	-	-	-	**(22,887)**
Movement of impairment of PPE	-	-	-	-	-	-	96,296	**96,296**
Disposal	-	(242)	-	(4,332)	-	(21)	(10,312)	**(14,907)**
Transfer to inventories	-	-	-	-	-	-	(581,891)	**(581,891)**
Transfer of impairment PPE to inventories	-	-	-	-	-	-	283,772	**283,772**
Transfer	-	-	2,209,541	59,260	-	1,286	(2,270,087)	-
Cost at 31 December 2012	**9,491,326**	**9,587,238**	**32,212,938**	**9,508,847**	**13,684,925**	**111,770**	**1,027,601**	**75,624,645**
Addition	-	-	-	73,288	-	14,485	571,991	659,764
Change in component for decommissioning and site restoration obligation (Note 16)	-	-	-	-	-	-	-	-
Impairment of PPE	-	-	-	-	-	-	-	-
Disposal	-	-	(40,142)	(7,938)	-	(1,436)	-	(49,516)
Transfer to inventories	-	-			-	-	(2,865)	(2,865)
Transfer	-	-	141,862	44,136	-	10,629	(196,627)	-
Cost at 30 September 2013	**9,491,326**	**9,587,238**	**32,314,658**	**9,618,333**	**13,684,925**	**135,448**	**1,400,100**	**76,232,028**
Accumulated depreciation at 1 January 2012	**(1,112,155)**	**(1,059,358)**	**(3,307,653)**	**(1,325,496)**	**(1,289,034)**	**(36,636)**	-	**(8,130,332)**
Charged for the period (Note 19)	(323,454)	(328,143)	(1,111,617)	(577,522)	(469,733)	(18,284)	-	**(2,828,753)**
Change in component for decommissioning and site restoration obligation (Note 16)	18,675	14,792	47,577	7,799	-	-	-	**88,843**
Impairment	-	-	2,496	-	-	-	-	**2,496**
Disposal	-	33	-	4,247	-	21	-	**4,301**
Accumulated depreciation at 31 December 2012	**(1,416,934)**	**(1,372,676)**	**(4,369,197)**	**(1,890,972)**	**(1,758,767)**	**(54,899)**	-	**(10,863,445)**
Charged for the period	(228,555)	(232,523)	(789,317)	(347,708)	(337,585)	(15,535)	,	**(1,951,223)**
Change in component for decommissioning and site restoration obligation (Note 16)	-	-	-	-	-	-	-	-
Impairment			-	-			-	-
Disposal	-	-	8,104	7,938	-	1,436		**17,478**
Accumulated depreciation at 30 September 2013	**(1,645,489)**	**(1,605,199)**	**(5,150,410)**	**(2,230,742)**	**(2,096,352)**	**(68,998)**	-	**(12,797,190)**
Net book value at 31 December 2012	**8,074,392**	**8,214,562**	**27,843,741**	**7,617,875**	**11,926,158**	**56,871**	**1,027,601**	**64,761,200**
Net book value at 30 September 2013	**7,845,837**	**7,982,039**	**27,164,248**	**7,387,591**	**11,588,573**	**66,450**	**1,400,100**	**63,434,838**

During the period ended 30 September 2013 no borrowing costs were capitalized.
During the year ended 31 December 2012 no borrowing costs were capitalized.

(In thousands of Russian Roubles)

As at 30 September 2013 the Company has properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 24,938,851 thousand (Note 15). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipelines	**Wells**	**Buildings and facilities**	**Machinery and equipment**	**Roads**	**Total**
Cost at 30 September 2013	9,248,693	7,936,778	8,267,033	4,277,274	129,657	29,859,435
Accumulated depreciation at 30 September 2013	1,610,490	1,356,437	1,349,742	582,669	21,246	4,920,584
Net book value at 30 September 2013	**7,638,203**	**6,580,341**	**6,917,291**	**3,694,605**	**108,411**	**24,938,851**

As at 31 December 2012 the Company had properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 25,655,799 thousand (Note 15). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	**Wells**	**Buildings and facilities**	**Machinery and equipment**	**Roads**	**Total**
Cost at 31 December 2012	9,248,693	7,936,778	8,267,033	4,267,732	129,657	**29,849,893**
Accumulated depreciation at 31 December 2012	1,387,983	1,164,746	1,148,236	475,042	18,087	**4,194,094**
Net book value at 31 December 2012	**7,860,710**	**6,772,032**	**7,118,797**	**3,792,690**	**111,570**	**25,655,799**

11. OTHER NON-CURRENT ASSETS

	30 September 2013	**31 December 2012**
Debt service reserve account	4,359,279	4,093,944
Expenditure reserve account	3,000,000	3,000,000
	7,359,279	**7,093,944**

In accordance with the long term project financing agreement finalized in 2011, certain cash is required to be set aside and can only be used in restricted circumstances till 2018.

As at 30 September 2013 cash balances of the Company on debt service reserve accounts were RR 1,881,253 thousand (Euro 43,098.88 thousand), RR 1,933,251 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

As at 31 December 2012 cash balances of the Company on debt service reserve accounts were RR 1,733,807 thousand (Euro 43,098.88 thousand), RR 1,815,362 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

(In thousands of Russian Roubles)

12. TRADE AND OTHER PAYABLES

	30 September 2013	31 December 2012
Financial liabilities		
Trade payables	364,464	259,487
Interest payable	69,106	90,354
Payables to related parties (see Note 26)	21,786	39,588
Other payables and accruals	20,503	24,497
	475,859	**413,926**
Non-financial liabilities		
Accrued employee benefit costs	130,864	272,430
Provision for revegetation	3,990	41,524
Wages and salaries	61,225	34,933
	196,079	**348,887**
	671,938	**762,813**

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision was recognised in the financial information in respect of revegetation works to be performed in 2013.

13. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	30 September 2013	31 December 2012
Value added tax (VAT)	1,276,005	1,611,503
Natural resources production tax	1,247,704	1,194,538
Property tax	195,368	223,643
Insurance contributions for employees	51,898	64,575
Personal income tax	8,506	4,313
Other taxes and accruals	300	582
	2,779,781	**3,099,154**

Income tax expense comprises the following:

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Current tax expense	640,596	946,498
Deferred tax expense	605,350	946,561
	1,245,946	**1,893,059**

14. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	30 September 2013	31 December 2012
Long-term debt, current portion (Note 15) including:		
US$ denominated floating rate:	1,368,721	3,095,096
Euro denominated floating rate:	1,331,851	2,955,491
RR denominated fixed rate:	385,787	929,359
Total	**3,086,359**	**6,979,946**

(In thousands of Russian Roubles)

15. LONG-TERM LOANS

	30 September 2013	31 December 2012
Banks:		
UniCredit Bank AG		
US$ denominated floating rate:	10,990,505	13,540,450
Euro denominated floating rate:	10,695,917	12,930,876
RR denominated fixed rate:	3,101,337	4,071,873
	24,787,759	**30,543,199**
Less: Long-term debt, current portion (Note 14)	(3,086,359)	(6,979,946)
Total	**21,701,400**	**23,563,253**

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling Euro 474,088 thousand, US dollar 657,465 thousand and RUR 5,992,523 thousand. Unicredit Bank AG is acting as Facility Agent for a group of international financial institutions. Final repayment of this project financing is due in December 2018. In May 2011 the project financing was received.
This loan is collateralized by a mortgage in respect of the gas pipeline, certain immovable assets and certain gas wells, land lease rights and a pledge of rights under the gas sale agreements (Note 10).

Interest rates for the Euro- and US dollar-denominated parts of the loan are EURIBOR/LIBOR +235 basis points per annum from the date of the agreement to 31 March 2014, EURIBOR/LIBOR +250 basis points per annum from 1 April 2014 to 31 March 2017, EURIBOR/LIBOR +275 basis points per annum from 1 April 2017 to the final repayment date. A fixed interest rate for the RUR-denominated part of the loan is 11.4 % per annum.

The average effective interest rates at the end of reporting period were as follows:

	30 September 2013	31 December 2012
Banks:		
US$ denominated floating rate	2.62	2.81
Euro denominated floating rate	2.54	3.14
RR denominated fixed rate	11.4	11.4

As at 30 September 2013 and 31 December 2012 the carrying amounts of long-term loans approximate their fair values.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2013	31 December 2012
Provision for decommissioning and site restoration	2,710,374	2,547,298
Provision for state wells decommissioning	-	-
	2,710,374	**2,547,298**

Provision for decommissioning and site restoration

	For the nine months ended 30 September 2013	Year ended 31 December 2012
At the beginning of the year	2,547,298	2,966,254
Change in estimate of provision for decommissioning and site restoration	-	(686,925)
Unwinding of discount	163,076	267,969
At the end of the period	**2,710,374**	**2,547,298**

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development and accordingly a provision for decommissioning and site restoration was recognized in the financial information for the period ended 30 September 2013 and for the year ended 31 December 2012 with a corresponding asset recognised within property, plant and equipment (see Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 September 2013 was 8.54 percent (31 December 2012 - 8.54 percent), which represents the pre-tax rate which reflects market assessment of time value of money and the risk specific to the liability at the end of reporting period.

(In thousands of Russian Roubles)

Provision for state wells decommissioning

	For the nine months ended 30 September 2013	**Year ended 31 December 2012**
At the beginning of the year	-	79,724
Unwinding of discount	-	3,601
Utilization of provision	-	(83,325)
At the end of the year	**-**	**-**

According to the license agreement between the Company and the Administration of the Yamalo-Nenets Autonomous District, the Company is obliged to bear expenses for liquidation of exploration wells located at Yuzhno-Russkoye oil and gas field owned by the state. The Company recognised a provision for these expenses in its financial statements for the year ended 31 December 2012. The discount rate used to calculate the net present value of the future cash outflows relating to state wells liquidation as at 31 December 2012 was 9.03 percent.

17. EQUITY

Share capital

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type «A») with the nominal value of RR 2,462 thousand, 3 preference shares (type «B») with the nominal value of RR 667 thousand per share and 1 preference share (type «C») with the nominal value of RR 1,077 thousand. Total amount of share capital amounts to RR 40,000 thousand.

As at 30 September 2013 according to the project facility agreement all the shares (533,324 ordinary shares, 2 preference shares (type «A») , 3 preference shares (type «B») 1 preference share (type «C») are pledged to ING BANK N.V., London Branch until all the obligations, under the Project Facility Agreement are fulfilled.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand. Total amount of share capital was RR 667 thousand.

In fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RR 1,639,449 thousand was recorded in equity as share premium.

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand. Total amount of share capital was RR 616 thousand.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type «A») are calculated as 12.308 percent of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type «B») are 5 percent of the allocated profit for dividends; preference shares (type «C») are 2.692 percent of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

(In thousands of Russian Roubles)

The basis for distribution is defined by legislation as the current year net profit as calculated in accordance with the Russian accounting rules. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial information.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount of received funds totalling RR 1,810,635 thousand, net of respective deferred tax effect of RR 571,799 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loan and the amount of received funds totalling RR 4,585,301 thousand, net of respective deferred tax effect of RR 1,447,990 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company early repaid part of the loans to its shareholder. The fair value effect from early redemption of these loans totalling RR 1,323,746 thousand, net of respective deferred tax effect of RR 418,025 thousand, was recognized as a reduction in Other reserves.

In the year ended 31 December 2008 the Company redeemed all the loans for which Other reserves were recognized. The fair value effect from early redemption in the amount of RR 4,198,937 thousand, net of respective deferred tax effect of RR 1,325,954 thousand, was recognized as a reduction in Other reserves.

Dividends

The Annual General Shareholders' Meeting of the Company held on June 28, 2013 decided to pay dividends RR 3,143,251 thousand for the year ended December 31, 2012.

The Annual General Shareholders' Meeting of the Company held on June 29, 2012 decided to pay dividends RR 1,831,884 thousand for the year ended December 31, 2011.

In 2013 Company accrued dividends in the amount of RR 3,143,251 thousand. Amount of dividends paid was RR 2,935,795 thousand net of withholding tax.

In 2012 Company accrued dividends in the amount of RR 1,831,884 thousand. Amount of dividends paid was RR 1,710,979 thousand net of withholding tax.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

18. REVENUE

	For the nine months ended 30 September 2013	**For the nine months ended 30 September 2012**
Revenue from gas sales	24,903,489	24,247,743
	24,903,489	**24,247,743**

All customers of the Company represent related parties. Please refer to Note 26.

(In thousands of Russian Roubles)

19. COST OF SALES

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Natural resources production tax	10,829,445	9,393,397
Depreciation	1,938,735	1,999,941
Wages, salaries and other staff costs	835,801	735,108
Property tax	701,725	731,640
Services	530,055	550,428
Contributions to the State and non-State pension fund	203,653	201,801
Materials	191,063	175,629
Insurance	113,803	109,033
Transportation services	46,991	44,674
Fuel and energy	31,619	27,542
Other	112,448	92,168
	15,535,338	**14,061,361**

Depreciation in the amount of RR 12,716 thousand for the period ended 30 September 2013 was capitalized (for the period ended 30 September 2012– RR 17,853 thousand).

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Wages, salaries and other staff costs	334,974	315,518
Contributions to the State and non-State pension fund	58,508	70,025
Services and other administrative expenses	227,973	235,909
	621,455	**621,452**

21. OTHER OPERATING INCOME

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Reimbursement of the road maintenance costs	114,726	481
Reversal of impairment	16,339	86,552
Gain on disposal of property, plant and equipment	1,080	-
Other	18,175	6,087
	150,320	**93,120**

22. OTHER OPERATING EXPENSES

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Social costs	78,395	67,607
Impairment of property, plant and equipment	-	20,391
Non-refundable VAT	5,244	3,197
Loss on disposal of property, plant and equipment	-	161
Other	38,480	157,411
	122,119	**248,767**

(In thousands of Russian Roubles)

23. FINANCE INCOME

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Interest income	747,534	599,864
Foreign currency exchange gains	1,300,891	5,368,289
	2,048,425	**5,968,153**

24. FINANCE COSTS

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Interest expense:		
Bank loans	816,842	1,267,189
Foreign currency exchange losses	2,521,648	4,212,822
Unwinding of discount of provisions (see Note 16)	163,076	204,577
	3,501,566	**5,684,588**

25. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

(b) Legal proceedings

The Company is subject of, or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial information.

(In thousands of Russian Roubles)

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

26. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with shareholders

The Company is under the control of OJSC Gazprom and is included in the Gazprom Group. OJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and E.ON E&P GmbH, which is part of the E.ON Group have significant influence on the Company (see Note 1).

Transactions of the Company with its shareholders for the periods ended 30 September 2013 and 30 September 2012 are presented below:

	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Sales of gas to OJSC Gazprom	9,961,396	9,699,097
Sales of gas to CJSC Gazprom YRGM Trading	8,716,221	8,486,710
Sales of gas to CJSC Gazprom YRGM Development	6,225,872	6,061,936
Purchases of goods and services from Gazprom Group	141,365	170,069

All operations with Gazprom Group, BASF SE Group and E.ON Group were performed in accordance with signed agreements and on general market conditions.

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	30 September 2013	31 December 2012
Trade and other receivables from OJSC Gazprom	2,579,629	1,689,227
Trade and other receivables from CJSC Gazprom YRGM Trading	2,137,526	1,365,701
Trade and other receivables from CJSC Gazprom Development	1,526,804	975,501
Other receivables from Gazprom Group	102	1,498
	6,244,061	**4,031,927**
Long-term accounts receivable		
Trade receivables from OJSC Gazprom	241,362	226,684
	241,362	**226,684**

As at 30 September 2013 and 31 December 2012 short-term and long-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

(In thousands of Russian Roubles)

Accounts payable	30 September 2013	31 December 2012
Payables to the Gazprom Group	21,786	39,588
	21,786	**39,588**

Transactions with Key Management Personnel

Management of the Company consists of the General Director and his eleven deputies.

Key management compensation is presented below:

Key management benefits	For the nine months ended 30 September 2013	For the nine months ended 30 September 2012
Short-term benefits	120,710	112,538
Other long-term benefits	23,381	985
	144,091	**113,523**

The Shareholder’s meeting, held on June, 2013 decided to pay compensation to the members of the Board of directors amounting to RR 4,547 thousand.

The Shareholder’s meeting, held on June, 2012 decided to pay compensation to the members of the Board of directors amounting to RR 4,250 thousand.

Transactions with parties under control of the Government

The Company does not have transactions with parties under the control of the Government except for the Gazprom Group.

27. SUBSEQUENT EVENTS

There are no subsequent events to disclose.